

Event Update - IMF World Economic Outlook Update

January-2022

Global GDP forecast is lowered due to the Omicron and Inflation

In its latest update of the World Economic Outlook, the IMF slashed its world GDP growth forecast for 2022 by 50 bps to 4.4% and marginally raised 2023 forecast by 20 bps to 3.8%. The downward revision for 2022 is due to the rapid spread of the Omicron variant in many countries which led to the renewed mobility restrictions that resulted in the labor shortages, supply chain disruptions and caused rising inflation rates and commodity prices. Nevertheless, the highly contagious Omicron variant is likely to be less severe than the Delta variant, which recorded high number of infections and the chance of the recovery is relatively higher.

The IMF expressed its concerns and reiterated that the economic revival is subject to uncertainty related to the renewed wave of virus cases in several economies as well as the spread of the new variants. The IMF anticipates that the Omicron will weigh on activity in the Q1-2022 and this effect is expected to fade in the Q2-2022.

The IMF revised the global growth for two large economies, the United States and China, which is expected to grow slower than what was predicted in October last year. The IMF lowered the growth forecast for U.S by 120 bps to a growth of 4% in 2022 after expanding by 5.6% in 2021. Growth is expected to ease further to 2.6% in 2023, due to the tightening of U.S. monetary policy and continued supply shortages. Meanwhile, IMF downgraded China's forecast by 80 bps to 4.8% in 2022 after 8.1% growth in 2021. Growth is expected to be higher in 2023 at 5.2%. According to the IMF, disruption in the housing sector, private spending weaker than expected and the government's zero-tolerance policy toward Covid-19 led to a broader slowdown.

As the recoveries and divergence across the countries persists, Advanced Economies are expected to return to the pre-pandemic levels and emerging markets and developing economies are projected to have significant output losses in the medium-term during 2022. The IMF however warned that the emergence of any new variants could derail the pace of economic recovery.

Country/Regions	Jan-2022 Updated Forecasts				Rev. from Oct-2021	
Real GDP Growth	2020	2021	2022e	2023e	2022e	2023e
World Output	-3.1%	5.9%	4.4%	3.8%	-0.5%	0.2%
Advanced Economies	-4.5%	5.0%	3.9%	2.6%	-0.6%	0.4%
United States	-3.4%	5.6%	4.0%	2.6%	-1.2%	0.4%
Euro Area	-6.4%	5.2%	3.9%	2.5%	-0.4%	0.5%
EM and Developing Economies	-2.0%	6.5%	4.8%	4.7%	-0.3%	0.1%
China	2.3%	8.1%	4.8%	5.2%	-0.8%	-0.1%
India	-7.3%	9.0%	9.0%	7.1%	0.5%	0.5%
Middle East and Central Asia	-2.8%	4.2%	4.3%	3.6%	0.2%	-0.2%
Saudi Arabia	-4.1%	2.9%	4.8%	2.8%	0.0%	0.0%
Sub-Saharan Africa	-1.7%	4.0%	3.7%	4.0%	-0.1%	-0.1%
Trade Volume Growth	2020	2021	2022e	2023e	2022e	2023e
World Trade Volume	-8.2%	9.3%	6.0%	4.9%	-0.7%	0.4%
Advanced Economies	-9.0%	8.3%	6.2%	4.6%	-0.7%	0.6%
EM and Developing Economies	-6.7%	11.1%	5.7%	5.4%	-0.7%	0.0%
Consumer Prices Change	2020	2021	2022e	2023e	2022e	2023e
Advanced Economies	0.7%	3.1%	3.9%	2.1%	1.6%	0.2%
EM and Developing Economies	5.1%	5.7%	5.9%	4.7%	1.0%	0.4%

Sources : IMF WEO Update - Jan-2022

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The diverging trends are mainly driven by the rate of vaccinations that has a direct impact on the pace of resumption of economic activity. According to the IMF, almost all advanced economies that have relatively better access to vaccines and are vaccinating at a much faster pace are expected to grow faster than previous expectations. On the other hand, countries with low rates of vaccinations and facing a threat of resurgence of Covid-19 are expected to see a delayed recovery.

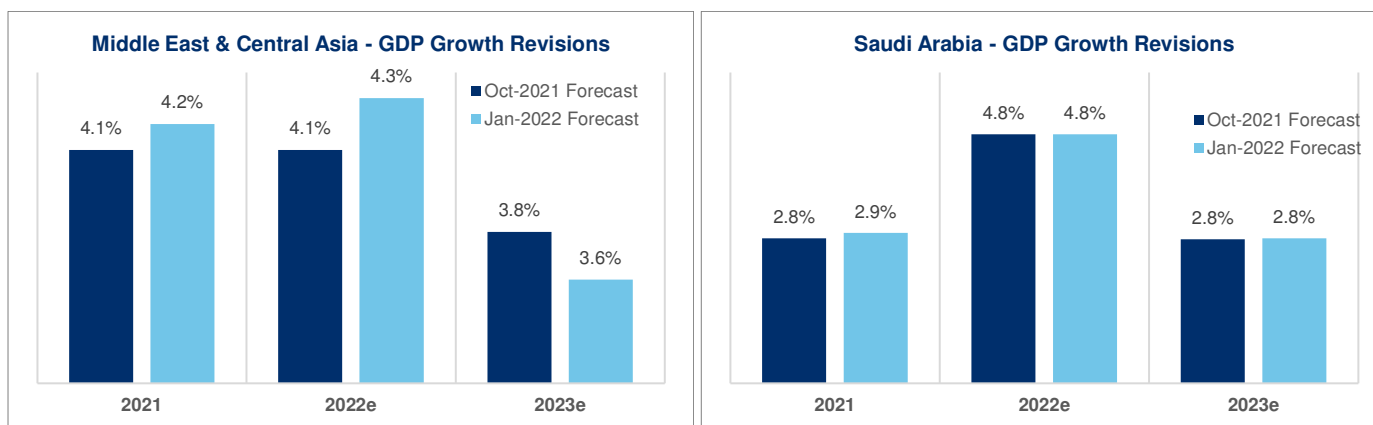
In terms of inflation, the IMF said that prices pressures are expected to remain high and is likely to subside in 2023. According to the IMF, inflation is expected to average at 3.9% in advanced economies and at 5.9% in emerging market and developing economies in 2022, before subsiding in 2023. The current increase in inflation is mainly due to the supply disruptions due to the pandemic and the higher demand as a result, commodity prices are seeing a broad-based recovery. The rapid increase in fuel prices and food prices are expected to moderate during 2022–2023 which will help to contain the inflation, according to the IMF.

Global Trade Volumes

Global trade volume is expected to grow by 6.0% in 2022, a downward revision of 70 bps, mainly due to a downward revision of 70 bps in both the regions to record a growth of 6.2% for Advanced Economies and 5.7% for Emerging market and Developing economies. Next year, both the regions are expected to see stronger-than-expected growth led to a positive revision of 40 bps to global trade volume growth to 4.9%. According to the IMF, services trade is expected to see a slower recovery than goods trade as travel restrictions continue to remain in place in several countries.

MENA Region

The IMF upgraded the growth outlook for Middle East and North Africa this year fueled by higher energy prices and output. The IMF raised the growth of Middle East and North Africa region by 30 bps to 4.4% for 2022 and revised downward by 10 bps to 3.4 for 2023. The main reason for the improved prospects for growth in 2022 is mainly due to the oil exporters, which is again linked directly to the oil prices led increase in production.



Source : IMF WEO Update - Jan-2022

Global Growth

The Pandemic continued to spread across all the countries, uneven vaccine access played a major role with only 55% of people having received at least one dose. The new variant Omicron which was detected in the last November has sparked record waves of infection in the U.S., Europe, and Asia, despite its high transmissibility, Omicron has appeared less deadly with hospitalization rates among vaccinated people remaining relatively low. The fully vaccinated share of the population was about 70% for high-income countries, but below 4% for low-income countries. There was a target of vaccinating 40% of the world's population by the end of 2021 but this was missed in 86 countries.

The IMF emphasizes to implement an effective Global health strategy which provides worldwide access to vaccines and treatments to contain the spread of new variants. Proper structural reforms are required to offset the impact of the pandemic. At the national level, both fiscal and monetary policies should remain tailored to country specific circumstances considering the scope of recovery, and the inflationary pressures to confront the high level of uncertainty. Less accommodative monetary policy in advanced economies is likely to pose challenges for central banks and governments in emerging and developing economies.

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